

NANOPHASE TECHNOLOGIES CORPORATION

BALANCE SHEETS

ASSETS	December 31, 2015 (Unaudited)	December 31, 2014
Current assets:		
Cash and cash equivalents	\$ 1,275,402	\$ 1,861,524
Trade accounts receivable, less allowance for doubtful accounts of \$6,000 on December 31, 2015 and December 31, 2014	506,549	387,760
Other receivable	43	65
Inventories, net	661,593	950,106
Prepaid expenses and other current assets	247,726	367,860
Total current assets	2,691,313	3,567,315
 Equipment and leasehold improvements, net	 1,860,579	 2,137,549
Other assets, net	22,381	24,864
	\$ 4,574,273	\$ 5,729,728
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 94,406	\$ 69,733
Accounts payable	507,643	492,718
Accrued expenses	276,287	412,824
Total current liabilities	878,336	975,275
 Long-term portion of capital lease obligations	 143,560	 120,787
Long-term deferred rent	518,747	621,475
Asset retirement obligation	172,238	166,099
Total long-term liabilities	834,545	908,361
 Stockholders' equity:		
Preferred stock, \$.01 par value, 24,088 shares authorized and no shares issued and outstanding	-	-
Common stock, \$.01 par value, 35,000,000 shares authorized; 28,585,496 and 28,516,163 shares issued and outstanding on December 31, 2015 and December 31, 2014, respectively	285,855	285,162
Additional paid-in capital	96,172,795	95,965,739
Accumulated deficit	(93,597,258)	(92,404,809)
Total stockholders' equity	2,861,392	3,846,092
	\$ 4,574,273	\$ 5,729,728

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31,		Years ended December 31,	
	2015	2014	2015	2014
Revenue:				
Product revenue, net	\$ 2,271,979	\$ 1,809,271	\$ 10,271,919	\$ 9,879,743
Other revenue	7,780	10,389	41,270	56,079
Net revenue	<u>2,279,759</u>	<u>1,819,660</u>	<u>10,313,189</u>	<u>9,935,822</u>
Operating expense:				
Cost of revenue	<u>1,606,702</u>	<u>1,523,771</u>	<u>7,199,594</u>	<u>7,104,572</u>
Gross profit	673,057	295,889	3,113,595	2,831,250
Research and development expense	303,193	348,261	1,272,621	1,337,719
Selling, general and administrative expense	<u>703,585</u>	<u>824,283</u>	<u>3,019,424</u>	<u>3,215,616</u>
Loss from operations	(333,721)	(876,655)	(1,178,450)	(1,722,085)
Interest income	-	-	-	810
Interest expense	(4,625)	(1,191)	(13,999)	(5,537)
Other, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss before provision for income taxes	(338,346)	(877,846)	(1,192,449)	(1,726,812)
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ (338,346)</u>	<u>\$ (877,846)</u>	<u>\$ (1,192,449)</u>	<u>\$ (1,726,812)</u>
Net loss per share- basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>
Weighted average number of basic and diluted common shares outstanding	<u>28,585,496</u>	<u>28,484,511</u>	<u>28,574,902</u>	<u>28,482,256</u>

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended December 31,		Years ended December 31,	
	2015	2014	2015	2014
Revenue:				
Product revenue, net	\$ 2,271,979	\$ 1,809,271	\$ 10,271,919	\$ 9,879,743
Other revenue	7,780	10,389	41,270	56,079
Net revenue	<u>2,279,759</u>	<u>1,819,660</u>	<u>10,313,189</u>	<u>9,935,822</u>
Operating expense:				
<i>Cost of revenue detail:</i>				
Depreciation	147,685	147,695	581,382	597,916
Non-Cash equity compensation	5,105	4,981	22,369	24,383
Other costs of revenue	<u>1,453,912</u>	<u>1,371,095</u>	<u>6,595,843</u>	<u>6,482,273</u>
Cost of revenue	<u>1,606,702</u>	<u>1,523,771</u>	<u>7,199,594</u>	<u>7,104,572</u>
Gross profit	673,057	295,889	3,113,595	2,831,250
<i>Research and development expense detail:</i>				
Depreciation	27,475	29,838	113,043	105,920
Non-Cash equity compensation	8,279	9,795	34,380	52,307
Other research and development expense	<u>267,439</u>	<u>308,628</u>	<u>1,125,198</u>	<u>1,179,492</u>
Research and development expense	303,193	348,261	1,272,621	1,337,719
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization	10,090	10,090	40,449	39,343
Non-Cash equity compensation	27,902	23,392	123,828	110,643
Other selling, general and administrative expense	<u>665,593</u>	<u>790,801</u>	<u>2,855,147</u>	<u>3,065,630</u>
Selling, general and administrative expense	<u>703,585</u>	<u>824,283</u>	<u>3,019,424</u>	<u>3,215,616</u>
Loss from operations	(333,721)	(876,655)	(1,178,450)	(1,722,085)
Interest income	-	-	-	810
Interest expense	(4,625)	(1,191)	(13,999)	(5,537)
Other, net	-	-	-	-
Loss before provision for income taxes	(338,346)	(877,846)	(1,192,449)	(1,726,812)
Provision for income taxes	-	-	-	-
Net loss	<u>\$ (338,346)</u>	<u>\$ (877,846)</u>	<u>\$ (1,192,449)</u>	<u>\$ (1,726,812)</u>
Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):				
Addback Interest, net	4,625	1,191	13,999	4,727
Addback Depreciation/Amortization	185,250	187,623	734,874	743,179
Addback Non-Cash Equity Compensation	<u>41,286</u>	<u>38,168</u>	<u>180,577</u>	<u>187,333</u>
Adjusted EBITDA	<u>\$ (107,185)</u>	<u>\$ (650,864)</u>	<u>\$ (262,999)</u>	<u>\$ (791,573)</u>